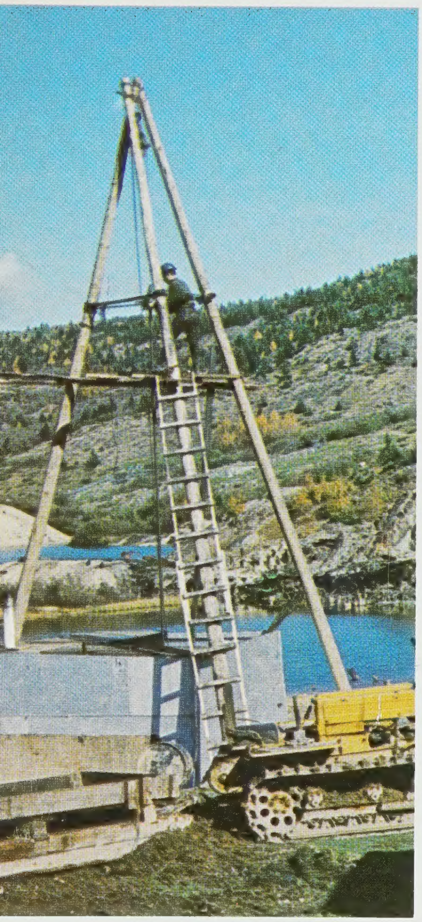
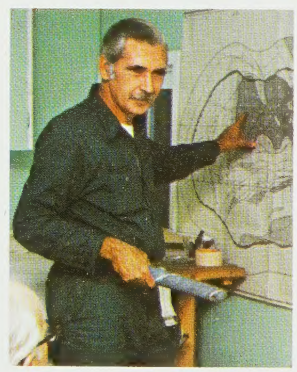
Brinco
LIMITED

Annual Report 1973





officers

directors

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WILLIAM D. MULHOLLAND

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Vice-President:
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Vice-President:
P. H. GRIMLEY, B.Sc., PhD.

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Treasurer:
ADRIAN M. S. WHITE, C.A.

Comptroller:
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The Toronto Stock Exchange

On peut obtenir le texte français de ce rapport auprès du service des Relations publiques, Brinco Limited, Un, Westmount Square, Montréal,

from the president

William D. Mulholland

Overleaf, is a chart which had been prepared to portray graphically the current status of the Churchill Falls Project. Notwithstanding events since the end of the year which are expected, in due course, to culminate in the "nationalization" of CFLCo, I think a moment or two might be spent on the subject of Churchill Falls. Although it is perhaps no longer relevant, the accompanying chart is nevertheless interesting and we decided to include it so that the very splendid achievement of the men and women of this organization and of other organizations associated with us, might be recorded. At this writing, nine of the eleven generating units are in service, the tenth is scheduled for June and the eleventh and final unit will go into service this September, 18 months ahead of schedule. As you can see, substantial generating capacity, additional to our contractual obligations, was created during the years 1973 to 1976 to provide needed back-up to neighboring systems. In the process, the Project has remained within budget and, with substantially all of the expenditures now committed, the current forecast indicates that the final capital cost of the Project will be somewhat below the budget established in 1968.

Net income of CFLCo for 1973 was $13,079,000, approximately $203,000 in excess of the 1968 budget, and for 1974 is forecast at $20,285,000, representing a somewhat greater improvement over this budget. Corporate planning until now has proceeded on the premise of a successful completion of the Churchill Falls Project with its consequential financial benefits to Brinco which would have permitted the payment of regular dividends as well as reinvestment in other profitable ventures. Until now the limited resources of the Company available for other activities have been directed to establishing a base for further earnings growth after completion of Churchill Falls. In that context, the latter program has been reasonably successful in that a number of opportunities for the profitable reinvestment of earnings from Churchill Falls have been identified. On the other hand, the abrupt disinvestment of Churchill Falls and the consequent inflow of $160 million in cash is, as you might expect, an eventuality beyond the scope of our earlier planning and the necessary adjustments, while difficult, are underway.

In the report of the Directors to Shareholders, more attention than usual has been given to a review of the non-hydro activities of the Company, most of which have been commented upon.

The greater part of this activity has been in the area of mineral exploration and development, a field

in which the Company has been active since it was formed. Three projects, which are discussed in the report of the Directors, are at the stage where development is being planned or is under consideration and an unusually large number of exploration projects are at a stage where their prospects will either be dimmed or greatly enhanced by the results of diamond drilling programs being carried out this year and next. A number of these, as you will observe, are outside the Company's traditional areas of Newfoundland and Labrador. In 1971 the decision was made to expand activity beyond Newfoundland and Labrador, partly for greater diversification and partly to achieve a more competitive environment for the conduct of exploration. The first organized effort by our exploration team outside of Newfoundland and Labrador took place in 1972, so that we have now had two exploration seasons under this policy. The results have been very satisfactory and at this time we clearly have a more attractive portfolio of exploration ventures than at any time in the past.

The interest of the Company in oil and gas and in coal is of more recent origin. In these areas, activity centres principally, although not exclusively, around acquisition possibilities particularly where experienced management is available.

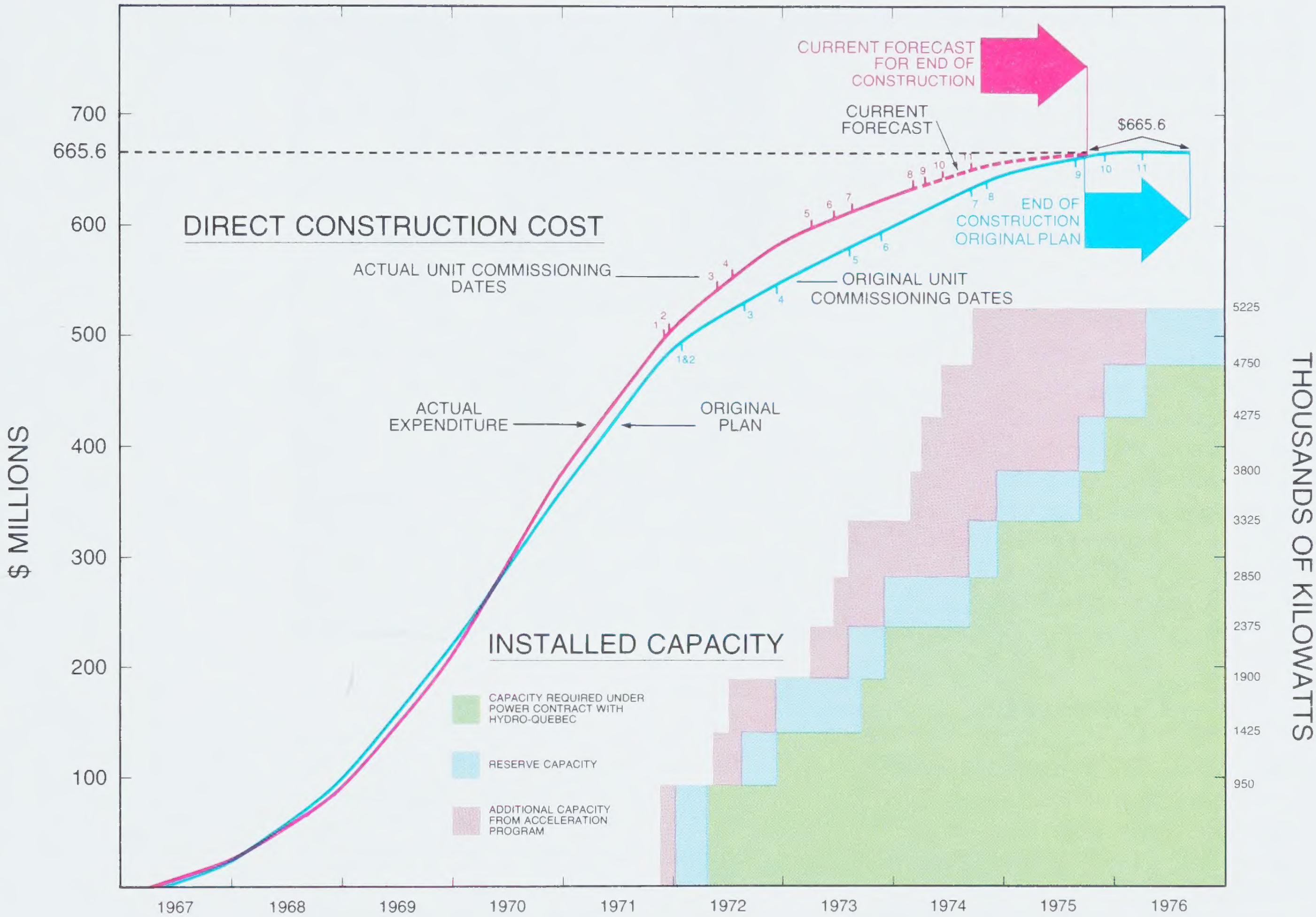
Activity in the field of enriched uranium fuel is currently dominated by governmental timetables and until further developments occur in this area, there is little that can be added to previous public remarks on the subject.

Notwithstanding the scope of these activities and the fact that some or all of them may hold promise, it is important to keep them in perspective. The valuation placed upon the Company's hydro assets, with which the Directors concur, is $160 million. The *book* value of all of the other assets of the Company at March 31, 1974, (exclusive of intangibles being written off) is $13.9 million, of which $5.2 million was net working capital held in the form of cash or equivalent. While the Board feels that the intrinsic value of these assets is greater than that at which they are carried on the books, there is nevertheless still a great disparity in size between the assets being divested and those being retained. The very magnitude of this change in the constitution of the Company almost assures that the process of adjustment will neither be quick nor easy.

As you know, the Directors have decided, subject to shareholder approval and to the enactment of necessary legislation, to offer to each shareholder an opportunity to surrender his shares to the Company for a cash payment of $7.07 a share. At the same time, the Company has been advised by shareholders owning or controlling 53% of the outstanding shares of the Company that they will not surrender their shares. This offer will be made during some part of the period beginning with the closing of the sale of the Company's hydro assets to Newfoundland or the enactment of enabling legislation, whichever is later and ending 90 days thereafter. The principal factor determining when the offer is to be made is, of course, the Board's desire that adequate information regarding the Company's affairs and plans be disclosed and disseminated to shareholders and other interested parties before shareholders are asked to make a decision regarding their shares in the Company. In this connection you will appreciate the care which must be exercised to disclose relevant information fully and fairly, avoiding on the one hand overstating the Company's prospects or, on the other hand, stating them so conservatively as to give rise to the possibility that shareholders might be induced inadvertently to dispose of their shares for less than their intrinsic value.

The views of the Board are set out in

CHURCHILL FALLS PROJECT STATUS
DIRECT CONSTRUCTION COST & INSTALLED CAPACITY



the letter to shareholders accompanying the Information Circular concerning holding of the Company's Annual and Extraordinary General Meetings. I urge you to read it carefully. As part of the Information Circular, you will also find the consolidated and pro-forma balance sheets of the Company as at March 31, 1974, which give effect to the proposed transaction with Newfoundland.

Finally, I should say that in the discussions which took place during March with the Government of Newfoundland we were conscious of the very strong desires of our staff, as we were of the interests of our shareholders, in preserving the values inherent in Brinco as an ongoing entity under private ownership. The staff has maintained a very high standard of performance through these difficult times and once again it is my privilege to thank them for their loyalty and strong support.

William D. Mulholland
President and Chief Executive Officer

May 28, 1974

Brinco Limited
Report of Directors to Shareholders

In view of the proposed sale of Brinco's interest in Churchill Falls (Labrador) Corporation Limited ("CFLCo") and other water rights in Labrador, your directors feel that in addition to reviewing the activities of your Company during the past year, as is customary, it is appropriate also to discuss with the shareholders in some detail the Company's other interests.

Brinco's 1973 consolidated net income, $6,205,000 or 25.9 cents per share, was a substantial increase over 1972 consolidated net income of $1,359,000 or 5.5 cents per share, the result of the increase in the Company's 57% share of the net income of CFLCo. CFLCo's net income in 1973 amounted to $13,079,000 compared with $4,288,000 in 1972.

Churchill Falls

The hydro-electric power facility of Churchill Falls, when completed, is planned to have a total output of approximately 34.5 billion kilowatt hours per year. Most of this energy will be sold annually to the Quebec Hydro-Electric Commission ("Hydro-Quebec") under a long-term power contract and a total of 4.34 billion kilowatt hours per year has been earmarked for use within Labrador.

The Churchill Falls development during 1973 produced revenue from power sales which totalled $39,577,000 compared with $13,999,000 in 1972. Included in the Annual Report are CFLCo's financial statements for 1973.

The advanced stage of development at Churchill Falls enabled CFLCo to reduce its credit requirements from its bank consortium by $50,000,000 during 1973 to a new limit of $100,000,000. At year-end borrowings under this agreement totalled $24,000,000.

Capacity of the Churchill Falls plant was nearly doubled in 1973 when three more turbine-generator units were added to the four already on stream. With the addition of units eight and nine, commissioned in March and April, 1974, respectively, the installed capacity of the plant was increased to 4,275,000 kilowatts, or 5,730,000 horsepower. The 10th unit should be commissioned in June and the final unit ready in September, 1974. When all 11 are in operation the plant will have an installed capacity of 5,225,000 kilowatts, or 7,000,000 horsepower.

The third of three 735 kV transmission lines from Churchill Falls to the Hydro-Quebec system was energized in summer, 1973, and the Gabbro water control structure was completed, linking the Smallwood and the Ossokmanuan reservoirs and controlling the flow of water in the extensive reservoir system.

At year-end the hydro-electric project was approximately 95 per cent physically complete. During the year, direct construction costs totalled $50,581,000, bringing the total amount expended to date to $634,576,000. Aggregate capital costs of the project at the end of 1973 were $843,844,000.

Construction remaining at the end of 1973 consisted mainly of work in the

Potential customers have confirmed the high quality of Abitibi Asbestos fibre, here being bagged in the company's pilot plant for testing by manufacturers

powerhouse complex directly related to the installation of the remaining turbine-generator units.

In December, 1973, agreement was reached on a two-year contract between CFLCo and Local 2351 of the International Brotherhood of Electrical Workers representing approximately 130 operations employees at Churchill Falls. The agreement, which extends to November 18, 1975, includes increases in basic hourly wages, night shift and overtime premiums, and vacation benefits.

MINERAL PROJECTS

Asbestos

Abitibi Asbestos Mining Company Limited is the owner of a major asbestos deposit about 52 miles north of Amos, Quebec. In April, 1972, Brinco entered into an agreement with Abitibi whereby Brinco may acquire a 51% interest through the purchase of treasury shares. To date Brinco has expended $3.4 million, largely on evaluation of the asbestos deposit. Brinco has the exclusive right until mid-January, 1975, (and a non-exclusive right thereafter until July, 1976) to make a production decision on the asbestos deposit.

Brinco has completed the initial evaluation program which was designed to establish the ore value, fibre quality, ore reserves and to provide fibre samples for market testing. The pilot plant, constructed as part of this program and containing commercial-scale process equipment, treated 26 bulk samples of ore obtained from over 1,500 feet of

underground drifting and 3,300 feet of underground diamond drilling during 1973 to produce 120 tons of fibre.

Recent asbestos price increases and the short supply situation for asbestos that currently exists suggest generally favorable market conditions for the introduction of additional asbestos production. Brinco's investigations tend to confirm that additional production of the volume and quality anticipated from the Abitibi deposit can be absorbed by the market without distress.

Brinco is conducting a program to introduce Abitibi asbestos fibre to major consumers. The characteristics of the Abitibi fibre are well suited to the requirements of the asbestos cement industry. Numerous samples have been shipped to potential customers who have confirmed the high quality of the fibre.

During 1974 further operation of the pilot plant will be directed toward optimizing the process plant design and capacity. Mine planning studies to determine the open pit design and the optimum mining strategy will be continued. Preliminary engineering and other steps necessary to prepare firm cost estimates will be carried out; in view of the rapid increases being experienced in the cost of capital goods, considerable care is required to arrive at a reliable estimate of capital cost. Brinco expects to complete its evaluation this year.

Limestone

British Newfoundland Exploration Limited ("Brinex"), a wholly-owned subsidiary of Brinco, has three concession areas in Newfoundland which contain extensive deposits of limestone — the Port-au-Port Peninsula on the west coast, and Coney Arm and Canada Harbour on the east side of the Northern Peninsula. These deposits are of industrial grades suitable for cement manufacture, as a smelter flux and for other special uses.

In 1973, Brinex entered into an agreement with Lehigh Portland Cement Company ("Lehigh"), Allentown, Pennsylvania, to examine the possibility of constructing a large cement plant utilizing limestone on Brinex's Port-au-Port concession. Lehigh presently owns and operates 16 cement distribution centres and six cement plants across the U.S. with a total manufacturing capacity of 3.3 million tons per year. Diamond drilling undertaken in the summer of 1973 confirmed substantial deposits of good quality limestone well in excess of the 300 million tons required for such a project. Geological maps compiled by the Government of Newfoundland indicate the occurrence of shale and sand deposits, all readily accessible from the south coast of the Port-au-Port Peninsula where a deep water marine terminal with year-round capability can be constructed. This would facilitate shipment of cement and importation of the substantial amounts of fuel, heavy equipment and other materials required for plant construction and operation. Lehigh's projections indicate continued steady growth in U.S. cement demand over the next 10 years and forecast the need,

Extensive deposits of limestone of industrial grades suitable for cement manufacture are located on the Port-au-Port Peninsula in western Newfoundland

particularly on the eastern seaboard, for additional manufacturing capacity.

Lehigh and Brinex recently agreed to conduct jointly a detailed feasibility study of a one million ton per year cement plant and supporting facilities. The proposed development would include quarries, a cement manufacturing plant, ancillary services and a marine terminal. As in the case of Abitibi Asbestos, the evaluation is expected to be completed this year.

Uranium

In view of the improvement in uranium prices throughout the world, the Company is re-examining the economic viability of its known uranium deposits in Labrador and exploring for additional deposits.

Discoveries of uranium by Brinex in 1956, approximately 100 miles north of Goose Bay, Labrador, led to a drilling program and underground exploration and development of what has been identified as the Kitts deposit.

Depressed uranium prices, combined with the remote location, discouraged further exploration for a time, but in 1968 airborne surveys, in partnership with Metallgesellschaft A.G., covering approximately 1200 square miles, revealed numerous other radioactive showings in the same area which were subsequently confirmed by follow-up surveys on the ground.

In the course of this work the Michelin deposit was outlined by drilling; although of a larger indicated tonnage, it is of lower grade than the Kitts deposit.

Estimated tonnages so far delineated for both deposits are:

Ore Deposit	Drill Indicated Ore	
	Tons	U_3O_8
Kitts	166,420 (above 550 ft. depth)	0.886%
Michelin	2,600,000 (above 450 ft. depth)	0.182%

Recent increases in the price of uranium have caused Brinex to re-evaluate the feasibility of mining the deposits. Additional underground work and diamond drilling will be carried out in 1974 to confirm the grade and tonnage of the ore.

Further exploration in this area, concentrating on known occurrences of uranium, will be carried out during 1974 with the object of establishing additional tonnages.

In the joint venture with Metallgesellschaft, Brinex's interest in any production facility is 60%.

In March, 1970, the Government of Canada proposed the regulation of foreign ownership of companies engaged in uranium production in Canada. At the same time, the Government specifically recognized a small number of then existing joint ventures, including the Brinex-Metallgesellschaft arrangement, whose ownership interests would not be affected by the proposed restrictions on foreign ownership of uranium producers provided the commercial viability of deposits subject to such joint ventures could be demonstrated prior to March, 1976.

MINERAL EXPLORATION

Brinco's exploration expenditures and other costs related to natural resources, after deducting recoveries from joint venture partners, amounted to $1,199,000 in 1973, compared with $1,174,000 in 1972. A sum of $1,765,000 is budgeted for 1974.

Brinco has land holdings throughout Canada. Its largest single holding is in Newfoundland where, under the terms of its agreements with Newfoundland, Brinex retained as of January 1, 1974, a total of 32,737 square miles of mineral rights, including 2,723 square miles of exclusive oil and gas holdings.

Some Members of Brinco's Staff of Geologists. . .

Peter Grimley, Ph.D.

Paul Beavan, Ph.D.

Hugh Snyder, B.Sc.

The expiration date for the majority of these exploration rights is 1985, the remainder expiring in 1979 and 1980.

Zinc—Western Newfoundland

As a result of a detailed review carried out by Company geologists of the mineral potential of western Newfoundland, and the discovery by others of what now appears to be a commercial zinc deposit some 50 miles to the north, it was decided to mount an intensive exploration effort on the 1,200 square miles of Brinex's Principal Agreement concessions in the Corner Brook—Bonne Bay—Port-au-Port area of western Newfoundland. Consequently, in 1973 joint ventures in which Brinex will retain a 55% interest, between Brinex and Freeport Canadian Exploration Company, a subsidiary of Freeport Minerals Company, carried out geological mapping and geochemical surveys. The work has been successful in identifying several key areas where strong geochemical anomalies are known to coincide with favorable geological formations, and in some cases with known zinc mineralization. The anomalies were confirmed by a lake sediment sampling program conducted independently by the Geological Survey of Canada and the Newfoundland Department of Mines & Energy.

These areas will be further investigated by additional surface exploration and by diamond drilling during the 1974 season.

Zinc—British Columbia

In the Robb Lake area of northeastern British Columbia, Brinex's 1973 program of surface mapping and sampling on its claim holdings has led to the discovery of lead-zinc sulphides. The newly-discovered mineralization has not yet been proved to be present in commercial volume and grade, but the geological evidence warrants

alph Newson, M.Sc.

S.S. Gandhi, Ph.D.

Brian Osborne, M.Sc.

Diamond drilling will be carried out this summer to provide further evaluation of zinc mineralization in the Yukon Territory

Field work continues in the Robb Lake area of north-central British Columbia where lead-zinc sulphides occur

intensive further exploration. In at least four areas in the Robb Lake region, detailed geological and geochemical work will be continued to further define areas of known zinc mineralization preparatory to drilling. This project is in the same area as the Texas Gulf/Arrow Inter-America Corp./Barrier Reef holdings.

Also in the Robb Lake area Brinex may earn a 70% interest in claims held by Zenith Mining Corporation Ltd. (N.P.L.). Lead-zinc sulphides are known to occur along at least 5,000 feet of a dolomite horizon and diamond drilling to evaluate this zone is planned for 1974.

All of Brinex's activity in the Robb Lake region is being carried out under a joint venture with Metallgesellschaft Canada Limited, which has the right to earn 40% of Brinex's interest in any commercial discovery.

Zinc—Northwest Territories

Brinex holds a one-third interest in an exploration project in the Northwest Territories in partnership with Canadian Superior Exploration Limited and Home Oil Company Limited. A helicopter-supported program of reconnaissance, geological mapping, stream sediment sampling, soil geochemistry and gravity surveys was undertaken during 1973 and approximately 100 square miles of detailed mapping was completed. The program led to the discovery of significant lead-zinc mineralization in two areas. In 1974 additional mapping, soil geochemistry, gravity surveys and diamond drilling are planned.

Work on known mineralized showings and geochemical anomalies will be carried out in 1974 elsewhere in the Northwest Territories in equal partnership with Barrier Reef Resources Ltd. (N.P.L.).

Zinc—Yukon Territory

In 1973 Brinco purchased 150,000 treasury shares of Barrier Reef

Resources Ltd. (N.P.L.) at $1.10 per share to acquire a 5.1% interest in that company. The proceeds, together with a similar amount contributed by Conwest Exploration Ltd., will be used by Barrier to carry out a drilling program on its 192 claims on Goz Creek in the Bonnet Plume area. Widespread zinc sulphide mineralization occurs in this area with the most significant mineralization known so far averaging about 20% zinc over estimated thicknesses of 30 to 40 feet. Regional and stratigraphic mapping and preliminary sampling indicate that the area has considerable potential, but data presently available are insufficient for estimating the overall grade and tonnage. Further evaluation of the claim group by diamond drilling will be carried out in 1974.

Agreements have been signed with Cypress Resources Ltd. whereby Brinco has purchased 130,000 treasury shares of Cypress at $1.50 per share to acquire 6.7% of the outstanding shares of that company. Monies paid by Brinco on this purchase will be used by Cypress to fund additional exploration, including a diamond drilling program, on the 120 claims held by Cypress in the Bonnet Plume area, 10 miles west of Goz Creek. Under the terms of the agreement Brinex can earn a 60% working interest in the Cypress claims by spending approximately $4 million between 1974 and 1982. In addition Brinco has an option, exercisable before March 1975, to acquire a further 130,000 treasury shares of Cypress at either $1.50 per share or $1.75 per share, depending on the date of exercise.

Tents serve as a camp for exploration of base metal prospects in north-eastern British Columbia

The initial prospecting and mapping on the Cypress property has outlined a favorable zone of zinc mineralization confined to the upper 400 feet of a dolomite unit and traced for 22,000 feet. Although the property is located in a remote area of the Yukon Territory, the results of the exploration to date and the similarity of the occurrence to other deposits in the same area of the Yukon Territory make this property a promising exploration target.

Zinc—United States

Under a joint venture agreement with United States Borax and Chemical Corporation and Callahan Mining Corporation, a drilling program is underway in the state of Washington, on a mine site no longer being worked. Under the terms of the agreement, U.S. Borax and Brinex will each obtain a 25.5% interest in the property. It is believed by the joint venture partners that the mine area has a considerably higher tonnage potential than previously suspected and a drilling program, to be completed by mid-1974, is underway to prove or disprove this thesis.

The first drill hole, 200 feet east of the original open pit operation, encountered 259.5 feet assaying 4.8% zinc and 0.19% lead. Later holes have also encountered zinc mineralization but assay results have not yet been received.

Copper—British Columbia

Prospecting and geological mapping on claims held by Brinex on Vancouver Island have resulted in the definition of several copper mineralized zones including a 2,000 foot by 3,000 foot zone in a porphyry copper environment where copper grades in trenches range between 0.1% and local zones of up to 1.0%. Outcrop is limited in key zones and areas covered by overburden will be tested by a drilling program planned for 1974.

Exploration for porphyry copper deposits in central British Columbia was carried out on a small scale during 1973 and will be continued during 1974.

Copper—Quebec.

Brinex has small interests in two joint ventures conducting airborne geophysical surveys in established mining areas in northern Quebec designed to locate deeply-buried copper deposits.

Other Areas

In addition to the specific projects outlined above, a number of other exploration ventures for copper, zinc and uranium in Canada and the United States are planned for 1974 and 1975. In some cases, either negotiations are in progress or the land position is still open.

* * *

ENERGY

Coal

In 1971 Brinco identified coal in North America as a possible area of interest, subject to confirmation following investigation of the industry and available opportunities. Subsequently, a decision in principle to proceed further was made and as a result efforts are now in train to assemble prospective reserves of energy-coal. Negotiations are also in progress with two coal producers, the outcome of which can not at the present time be predicted.

Coseka Resources

Coseka Resources Limited ("Coseka"), a public company incorporated in British Columbia, is engaged principally in the exploration, acquisition, development and production of natural gas in Alberta and to a lesser extent in British Columbia and the Northwest Territories. The Coseka annual report is available from Coseka Resources Limited, 1055 West Hastings, Vancouver, British Columbia, V6E 2E9.

In September, 1973, Brinco purchased 727,173 shares of Coseka and $1.5 million principal amount of 8% Three-year Convertible Secured Debentures for a total initial commitment of $3.5 million. Brinco has also agreed to acquire before January 31, 1975, $3.5 million principal amount of Coseka's 8% Five-year Convertible Secured Debentures. If Brinco converts all the Debentures its interest in Coseka will increase to approximately 30%.

Coseka's principal exploration and development efforts are directed toward the sweet shallow, gas bearing sands in southeast Alberta and sour gas reservoirs in the Foothills structures of southeast Alberta.

One of Coseka's most significant

Coseka Resources' estimates of natural gas reserves were increased substantially with completion of a third stepout well at North Coleman, Alberta, a property in which Coseka has a significant holding

holdings is a 28.4% interest in North Coleman, approximately 85 miles southwest of Calgary. Following the completion of a discovery gas well in 1972 and subsequent confirmation wells, a third stepout well was completed on this property in March, 1974. On the basis of this well, Coseka substantially increased its estimate of its net natural gas reserves in North Coleman to 80,150 million cubic feet proven, 31,050 million cubic feet probable and its net reserves of sulphur to 1,105,500 long tons proven and 442,100 long tons probable, representing an approximate increase of 33%. This increase has been included in the table below.

Approximately 51.5% of Coseka's proven natural gas reserves are committed under long-term contracts which in most cases are for an original term of two years and provide for escalation of the sales prices. Thus Coseka is able to enjoy recent and proposed industry price increases.

Based on Coseka's reserves and production estimates, reserves as at April 30, 1974, of the company's net proven and probable natural gas, crude oil, natural gas liquids and sulphur are estimated as shown below.

	Proven	Probable	Total
Natural Gas (million cubic feet)	246,901	69,132	316,033
Crude Oil (Bbls.)	354,000	195,000	549,000
Natural Gas Liquids (Bbls.)	588,695	109,245	697,940
Sulphur (Long Tons)	1,292,933	612,302	1,905,235

Uranium Enrichment

Since 1968, Brinco has undertaken a corporate program to collect and analyze technical and economic data on uranium isotope separation processes, to evaluate the world market for enriched uranium fuel, to identify potential facility sites and to prepare initial plans for the establishment of such a facility in Canada.

The only large-scale enrichment plants in existence in the western world are the three plants of the United States Atomic Energy Commission. These plants use the gaseous diffusion process, as yet the only process with a proven record of reliable large-scale production over an extended time period. This process is a physical separation and does not involve chemical or nuclear reactions.

It is estimated that by the turn of the century new enrichment capacity equivalent to 17 new plants of 8,000 tonne separative work capacity, will be needed.

Brinco took the initiative to investigate the launching of such a project in Canada for several reasons. Firstly, Canada is well suited to such a project, with electrical energy resources, land spaces and water in good measure. Secondly, it has the

strong industrial infrastructure essential to such a large-scale technically sophisticated project. Brinco estimates that at least 90% of the materials and equipment required for such a plant can be manufactured in Canada. Third, nuclear fuel is believed to present an attractive commercial opportunity.

Soon after the U.S. offer to share its technology with friendly nations was made, Brinco approached the Government of Canada to ascertain its views with respect to the establishment of a uranium enrichment facility in Canada. During 1973, the Government of Canada announced its willingness, under certain conditions, to negotiate the intergovernmental arrangements necessary for the acquisition of technology for a commercial uranium enrichment facility in Canada.

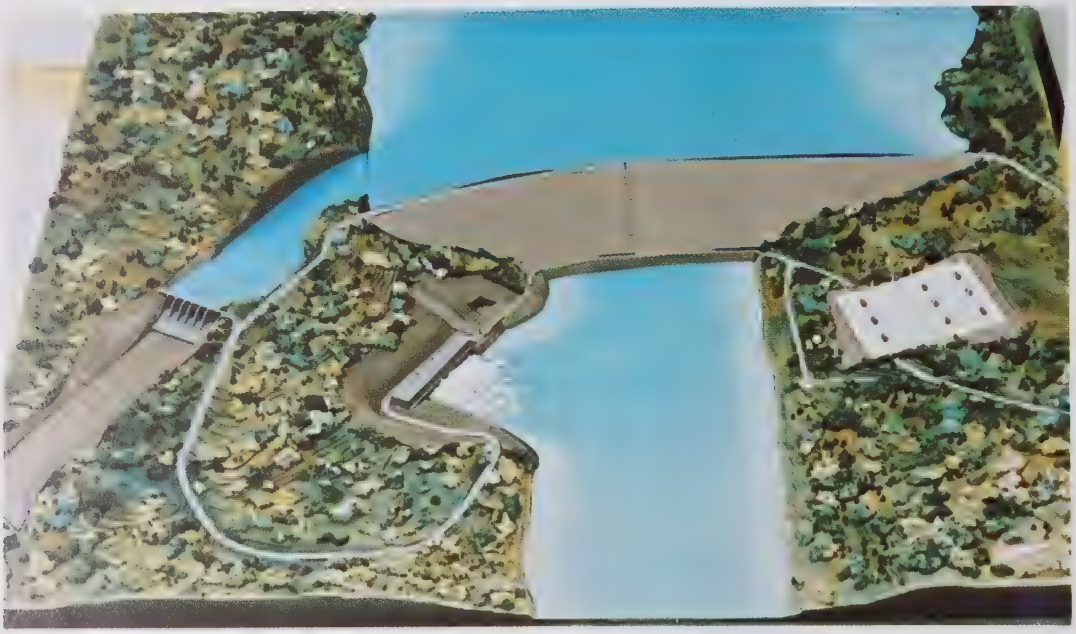
Hydro-Electric Management and Services

Brinco is negotiating with the Province of Newfoundland to provide certain services during 1974 for an investigation program to be conducted at the potential power generation site near Gull Island, some 130 miles downstream from Churchill Falls. These services would be provided on a cost reimbursement plus fee basis. In addition, Brinco has agreed to submit a proposal to the Province of Newfoundland, for management by Brinco of the investigation, planning, design and overall construction management of the Gull Island Power Project. There is no assurance, however, that Brinco's proposal will be acceptable.

Corporate Organization

In March, 1973, 1,200,000 treasury shares (approximately five per cent of

Dr. M.Y.el Baroudi (right) and P.A.T. Keeping, director and assistant director respectively of Brinco's uranium enrichment program, inspect a scale model of one half cell of the plant. This half cell contains eight stages of nearly 1,200 stages required in the enrichment process. Main components of a stage are a diffuser, compressor, drive motor and piping



This model, built in the course of extensive engineering studies undertaken by Brinco, shows the location of the dam and other major elements at a potential hydro power generation site at Gull Island, some 130 miles downstream from Churchill Falls

the shares then issued and outstanding) were issued at a price of $6.40 per share; 1,000,000 shares were purchased by Marubeni Corporation and 200,000 shares by The Fuji Bank, Limited, both of Tokyo, Japan, for an aggregate of $7,680,000.

* * *

With deep regret we report the passing in February, 1974, of H. Greville Smith, C.B.E., Chairman of the Board of Directors of Brinco from 1959 until 1963, and a director from 1959 until his retirement in 1973. He was 72. Mr. Smith's competence as an engineer and as an executive were of great value during the early years of the Company, particularly during the organization and construction of the pioneering Twin Falls project. He will be remembered affectionately as a man and as a builder.

* * *

In a year which saw considerable effort directed towards completion of the Churchill Falls project, and new ventures in other areas, the men and women of the Brinco companies worked with skill and dedication. To them, on your behalf, the directors express their appreciation.

Robert D. Mulholland, Chairman

William D. Mulholland, President

Montreal, Quebec, May 17, 1974

Brinco
LIMITED

Consolidated Balance Sheet as at December 31, 1973

Assets	1973	1972
Current assets:		
Cash and short-term deposits	$ 5,555,000	$ 3,293,000
Accounts receivable	245,000	910,000
Amount receivable on disposal of mining assets (note 2)	—	575,000
Supplies and prepaid expenses	27,000	52,000
Total current assets	5,827,000	4,830,000
Investment in Churchill Falls (Labrador) Corporation Limited (notes 1, 3 and 15)	60,867,000	53,418,000
Investment in Abitibi Asbestos Mining Company Limited, at cost (note 4)	3,237,000	2,000,000
Investment in Coseka Resources Limited, at cost (note 5)	3,606,000	—
Other investment, at cost (note 6)	215,000	—
Land, buildings and equipment, at cost less accumulated depreciation $475,000; 1972 — $478,000	45,000	107,000
Expenditures on Lower Churchill River project (notes 14 and 15)	3,356,000	3,100,000
Expenditures on other projects less amounts written off (note 14)	1,370,000	895,000
Organization and financing expenses (notes 7 and 15)	2,435,000	2,427,000
	$80,958,000	$66,777,000

Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (including to unconsolidated subsidiary $41,000; 1972 — $79,000)	$ 879,000	$ 807,000
Amount due on investment in Abitibi Asbestos Mining Company Limited	—	212,000
Total current liabilities	879,000	1,019,000
Shareholders' equity:		
Capital stock (note 8)	74,645,000	66,529,000
Retained earnings (deficit) (note 3)	5,434,000	(771,000)
	80,079,000	65,758,000
	$80,958,000	$66,777,000

See accompanying notes.

On behalf of the Board:

William D. Mulholland, Director

Harry W. Macdonell, Director

Brinco LIMITED

Consolidated Statement of Income and Retained Earnings for the year ended December 31, 1973

	1973	1972
Income:		
Equity in net income of Churchill Falls (Labrador) Corporation Limited	$7,449,000	$2,443,000
Income from Coseka Resources Limited	44,000	—
Income on short-term deposits	498,000	289,000
Sales (note 2)	121,000	2,294,000
Total Income	8,112,000	5,026,000
Expenses:		
Operating and administrative (note 9)	543,000	1,651,000
Depreciation and preproduction expenditures written off	56,000	385,000
Exploration expenditures and other costs related to natural resources — net (note 9)	1,199,000	1,174,000
Total expenses	1,798,000	3,210,000
Net income for the year before extraordinary item (note 12)	6,314,000	1,816,000
Mine shutdown costs (note 2)	109,000	557,000
Net income for the year (note 12)	6,205,000	1,259,000
Retained earnings (deficit) at beginning of year	(771,000)	(2,030,000)
Retained earnings (deficit) at end of year	$5,434,000	$(771,000)

See accompanying notes.

Brinco
LIMITED

Consolidated Statement of Changes in Financial Position for the year ended December 31, 1973

	1973	1972
Source of funds:		
Issue of capital stock	$8,116,000	$ 147,000
Disposal of land, buildings and equipment — net	6,000	758,000
	8,122,000	905,000
Use of funds:		
Current operations		
Equity in net income of Churchill Falls (Labrador) Corporation Limited	7,449,000	2,443,000
Less net income before extraordinary item	6,314,000	1,816,000
	1,135,000	627,000
Depreciation and preproduction expenditures written off	56,000	385,000
	1,079,000	242,000
Mine shutdown costs	109,000	557,000
Investment in Abitibi Asbestos Mining Company Limited	1,237,000	2,000,000
Investment in Coseka Resources Limited	3,606,000	—
Other investment	215,000	—
Expenditures on Lower Churchill River project	256,000	97,000
Expenditures on other projects	475,000	443,000
Organization and financing expenses	8,000	—
	6,985,000	3,339,000
Increase (decrease) in funds	1,137,000	(2,434,000)
Working capital at beginning of year	3,811,000	6,245,000
Working capital at end of year	$4,948,000	$3,811,000

See accompanying notes.

Brinco
LIMITED

Notes to the Consolidated Financial Statements for the year ended December 31, 1973.

(1) *Principles of Consolidation:*

The consolidated financial statements of Brinco Limited include the accounts of its subsidiaries as follows:

	Ownership
British Newfoundland Exploration Limited ("Brinex")	**100%**
Brinco (Quebec) Limited	**100%**
Gull Island Power Company Limited	**100%**
Fernie Coal Mines Limited	**80%**
Iskut Pulpower Ltd.	**60%**

The Company owns 56.96% of the issued share capital of Churchill Falls (Labrador) Corporation Limited ("Churchill Falls"). The investment in Churchill Falls is carried on an equity basis. As the principal assets and credit resources of Churchill Falls cannot be transferred to the Company, consolidation of its accounts with those of the Company does not produce financial statements which are as meaningful and informative as the separate financial statements of the Company and Churchill Falls.

The cost of the Company's investment in Churchill Falls plus its equity in the retained earnings of that company exceeds its equity in underlying net assets by $2,328,000. This excess is considered to be attributable to the establishment of the Churchill Falls Hydro-Electric Project ("Project") and the execution of the power contract with the Quebec Hydro-Electric Commission and this excess will be amortized by way of an annual charge against the Company's equity in the net income of Churchill Falls. The amortization will be on a straight-line basis over the initial 40-year term of the power contract during which the Project is capable of generating the maximum amount of energy called for thereunder, and is presently scheduled to commence in 1976.

(2) *Whales Back Mine:*

The Whales Back Mine was closed on June 3, 1972. The 1973 sales represent final settlement in respect of copper concentrates delivered during 1972.

(3) *Investment in Churchill Falls (Labrador) Corporation Limited:*

Shares at Cost	Company's share of net income since acquisition		Total	
	1973	1972	**1973**	1972
$49,647,000	**$11,220,000**	$3,771,000	**$60,867,000**	$53,418,000

A proportion of the Company's shareholding in Churchill Falls is deposited under a Voting Trust Agreement between the Company and Quebec Hydro-Electric Commission. Under the terms of the debt instruments of Churchill Falls, that company is prohibited from paying cash dividends out of income accumulated up to the Project completion date, as defined. These debt instruments also place restrictions on the payment of cash dividends out of income earned thereafter.

(4) *Investment in Abitibi Asbestos Mining Company Limited:*

In 1972 an agreement was entered into with Abitibi Asbestos Mining Company Limited ("Abitibi") under which the Company purchased 800,000 shares of Abitibi, representing 18% of the then outstanding share capital, for a total consideration of $500,000 in cash and a commitment to spend $1,500,000 on the construction of a pilot plant and related preproduction studies on the asbestos properties of Abitibi.

Until July 1976, the Company has the right to make a production decision and in connection therewith the Company has agreed, should it make such a decision, to purchase a sufficient number of treasury shares at $2.50 each to give it 51% of the share capital then outstanding.

During 1973 the Company and Abitibi entered into an amending agreement cancellable by Abitibi which provides for conversion of expenditures by the Company in excess of the $1,500,000 referred to above into additional shares of Abitibi on the basis of one share of Abitibi for each $2.50 of such excess. In the event the Company shall make a production decision the additional shares acquired by the Company shall be taken into consideration in determining the number of shares the Company shall then acquire under the 1972 agreement. In the event of cancellation by Abitibi of the 1973 amending agreement, the provisions of the 1972 agreement relating to excess expenditures will again have application. Under the 1972 agreement excess expenditures will, if the Company makes a production decision, be converted into additional shares of Abitibi on the basis of one share for each $2.50 of such excess. Otherwise such excess, at the option of Abitibi, will be refunded to the Company in cash and/or shares on the basis of one share for each $2.50 of excess. Expenditures in excess of the $1,500,000 are being converted into additional shares of Abitibi and at December 31, 1973 the Company owned or is entitled to 1,284,080 shares or 26% of the outstanding capital stock of Abitibi (800,000 shares or 18% at December 31, 1972). The quoted market value of the investment in Abitibi was $1,156,000 as at December 31, 1973 ($1,440,000 as at December 31, 1972). In view of the relative size and nature of the Company's shareholding and the limited trading volume in Abitibi shares, the quoted market value is not necessarily indicative of the value of this investment.

In the event that a production decision is made, the Company may be obligated as required by lenders who provide senior financing, to give completion guarantees and to provide any additional funds in the event of an over-run in relation to the project cost estimates. In addition, if required for purposes of arranging senior financing, the Company will undertake to advance up to $1,500,000.

(5) *Investment in Coseka Resources Limited:*

727,273 Common Shares	$2,000,000
$1,500,000 8% Convertible Debenture (Series A)	1,500,000
Acquisition Costs	106,000
	$3,606,000

During 1973 the Company entered into an agreement with Coseka Resources Limited (''Coseka'') under which the Company purchased 727,273 common shares of Coseka at a purchase price of $2.75 per share for a total of $2,000,000 and $1,500,000 principal amount of 8% secured convertible debenture Series A. Under the agreement, the Company will acquire within the six-month period commencing July 31, 1974 an additional $3,500,000 of 8% secured convertible debenture Series B.

The $1,500,000 principal amount of 8% convertible debenture Series A matures September 7, 1976 and, at the Company's option, is convertible at $2.75 per Coseka common share.

The Series B Debenture will have a term of five years and, at the Company's option, be convertible at $3.00 per Coseka common share for the first three years from the date of issue and, under certain circumstances thereafter, at $3.50 per Coseka common share. From September 7, 1973 to the date of the purchase of the Series B Debenture, the Company will earn a commitment fee of 1/2 of 1% per annum on the $3,500,000. Also the Company has certain rights of first refusal in any equity financing by Coseka. If the Series A and Series B debentures are all converted under the most favourable terms, this would result in the Company acquiring approximately 29% of the outstanding voting shares of Coseka. The quoted market value of the investment in common shares of Coseka was $1,635,000 as at December 31, 1973. In view of the relative size and nature of the Company's shareholding and the limited trading volume in Coseka shares, the quoted market value is not necessarily indicative of the value of this investment.

(6) *Other Investment:*

The quoted market value of this investment at December 31, 1973 was $330,000.

(7) *Organization and Financing Expenses:*

These expenditures were incurred mainly in connection with the raising of capital for investment in Churchill Falls and will be amortized by a charge to income on a straight-line basis over a period of 40 years determined in the same manner as described in note 1 above.

(8) *Capital Stock:*

(a) Common shares without nominal or par value authorized and issued as at December 31 were:

	Shares		Amount	
	1973	1972	**1973**	1972
Authorized	**35,000,000**	25,000,000		
Issued and fully paid	**24,306,811**	23,001,644	**$74,645,000**	$66,529,000

During 1973 the share capital of the Company was increased to 35,000,000 shares by the authorization of an additional 10,000,000 common shares.

(b) The following shares were issued for cash:

	Shares		Amount	
	1973	1972	**1973**	1972
Pursuant to agreements between the Company and Marubeni Corporation and The Fuji Bank, Ltd. 1,000,000 and 200,000 shares respectively were issued at a price of $6.40 per share on March 29, 1973	**1,200,000**	—	**$7,680,000**	—
Under the 1970 Stock Option Plan — 42,668 (5,000 in 1972) to officers, including officers who were also directors	**74,167**	31,410	**289,000**	118,000
Under options granted on October 10, 1968	**31,000**	6,000	**147,000**	29,000
	1,305,167	37,410	**$8,116,000**	$147,000

(c) Options granted:

Under the Provisions of the 1970 Stock Option Plan

Date of Grant	Option Price per Share	Shares to Officers including officers who were also Directors	Total Shares	Date of Expiry
February 15, 1973	$5.07	5,000	5,000	February 15, 1978
April 12, 1973	$5.18	7,500	10,500	April 12, 1978
		12,500	15,500	

During 1972, 84,500 shares were granted under option at prices varying from $4.95 to $5.85 per share for periods up to October 27, 1977.

(d) At December 31, 1973, options were outstanding on 309,340 shares (416,674 at December 31, 1972) — 183,000 shares (208,168 at December 31, 1972) to officers including officers who were also directors — exercisable at prices varying from $3.70 to $5.85 per share for periods up to April 12, 1978 (October 27, 1977 at December 31, 1972).

(9) *Exploration and Other Expenditures:*

Exploration expenditures and costs related to the investigation of possible investments in natural resources are charged to income as incurred and are net of recoveries from joint venture partners of $315,000; 1972—$206,000.

In 1973 management costs related to these activities which had formerly been included with operating and administrative expenses have been included with exploration expenditures and other costs related to natural resources. The 1972 comparative figures have been adjusted accordingly.

(10) *Commitment:*

In 1953 the Government of Newfoundland and the Company entered into an agreement (''Principal Agreement'') whereby the Company was granted options on extensive natural resource concessions within the Province of Newfoundland. Under the terms of the Principal Agreement, as amended, the Company is obligated to pay to the Government of Newfoundland an annual rental equal to 8% of the consolidated net profits before income taxes (as defined) of the Company and its subsidiary companies, excluding Churchill Falls, resulting from the operations of the concessions and rights granted by the Principal Agreement.

(11) *Income Taxes:*

For income tax purposes, Brinex claims as a deduction, exploration, depreciation and preproduction expenditures sufficient to offset income which would otherwise be taxable. At December 31, 1973, depreciation and amounts written off since the commencement of operations exceed allowances claimed for tax purposes by $13,150,000 ($12,035,000 at December 31, 1972). Also, subsequent to 1976, Brinex will be entitled to claim the earned depletion allowances which will have been accumulated from November 7, 1969 providing it has production profits. As at December 31, 1973, the balance of eligible expenditures against which such earned depletion may be claimed amounted to $6,045,000 ($4,850,000 at December 31, 1972).

In addition, the Company and Brinex have losses carried forward for income tax purposes.

(12) *Earnings per Share:*

	1973	1972
Net income before extraordinary item	**26.4¢**	7.9¢
Net income for the year	**25.9¢**	5.5¢

The calculation of net income per share has been made using the weighted average number of common shares outstanding during the respective years. There would be no material dilution of net income per share if the outstanding stock options had been exercised.

(13) *Company Directors' and Officers' Remuneration:*

		Number	Aggregate Remuneration: Company (Consolidated)	Churchill Falls	Total
Directors	1973	24	$71,000	$ 16,000	$ 87,000
	1972	21	49,000	22,000	71,000
Officers	1973	12	79,000	152,000	231,000
	1972	12	52,000	143,000	195,000

There were three officers who were also directors in 1972 and 1973.

In 1972 and 1973, four of the senior officers did not receive remuneration as officers from any of the above companies. Their services were provided pursuant to an agreement with Rio Tinto North American Services Limited and they have received remuneration from that company.

(14) *Reclassification:*

Certain expenditures amounting to $35,000 which had been included with "Expenditures on other projects" in previous years were reclassified to "Expenditures on Lower Churchill River project" in 1973. The 1972 comparative figures have been adjusted accordingly.

(15) *Subsequent Event:*

Subject to shareholder approval of the terms of a definitive agreement, the Company has agreed to sell to the Province of Newfoundland the shares owned by it of Churchill Falls (Labrador) Corporation Limited, together with its other Labrador water power rights and information and studies related thereto for a price of $160,000,000 in cash. After the closing of the sale, the Company will make an offer to its shareholders of $7.07 per share so that each shareholder will have the choice of remaining a shareholder in Brinco or receiving cash in payment for his shares. The Government of Newfoundland has agreed to enact enabling legislation for this purpose.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Brinco Limited as of December 31, 1973, and the consolidated statements of income and retained earnings and changes in financial position for the year then ended and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies at December 31, 1973, and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.,
Chartered Accountants

Montreal, Que.,
February 21, 1974 (March 28, 1974 as to note 15)

CHURCHILL FALLS
(LABRADOR) CORPORATION LIMITED

Balance Sheet as at December 31, 1973

Assets	1973	1972
Current assets:		
Cash and short-term deposits	**$ 10,534,000**	$ 11,870,000
Accounts receivable (including from affiliates $173,000; 1972 — $154,000)	**6,672,000**	5,997,000
Dividend receivable from Twin Falls Power Corporation Limited	**238,000**	288,000
Supplies and prepaid expenses	**1,501,000**	1,501,000
Total current assets	**18,945,000**	19,656,000
Investment in shares of Twin Falls Power Corporation Limited (note 1)	**2,676,000**	2,672,000
Churchill Falls power project, at cost	**798,450,000**	716,242,000
Less accumulated depreciation (note 2)	**12,514,000**	8,608,000
	785,936,000	707,634,000
Trans-Labrador road, less $1,169,000 (1972 — $584,000) written off (note 2)	**1,168,000**	1,753,000
Unamortized debt discount and financing expenses (notes 3 and 8)	**7,156,000**	6,730,000
	$815,881,000	$738,445,000

Liabilities and Shareholders' Equity	1973	1972
Current liabilities:		
Accounts payable and accrued liabilities	**$ 17,285,000**	$ 20,588,000
Royalty and rental due to the Province of Newfoundland [note 9(c)]	**2,751,000**	1,094,000
Total current liabilities	**20,036,000**	21,682,000
Long-term debt (note 4)	**687,277,000**	625,823,000
Deferred income taxes	**5,788,000**	1,239,000
Shareholders' equity:		
Capital stock (note 5)	**82,900,000**	82,900,000
Retained earnings (note 6)	**19,880,000**	6,801,000
	102,780,000	89,701,000
	$815,881,000	$738,445,000

See accompanying notes.

On behalf of the Board:

Harry W. Macdonell, Director

Robert A. Boyd, Director

CHURCHILL FALLS
(LABRADOR) CORPORATION LIMITED

Statement of Income and Retained Earnings for the year ended December 31, 1973

	1973	1972
Revenue:		
Sales of power (note 7)	**$39,577,000**	$13,999,000
Rental of rights and facilities to Twin Falls Power Corporation Limited	**735,000**	735,000
Equity in net income of Twin Falls Power Corporation Limited for the year	**654,000**	676,000
Total revenue	**40,966,000**	15,410,000
Expenses:		
Plant and corporate costs (note 8)	**3,745,000**	1,770,000
Horsepower royalty [note 9(c)]	**1,107,000**	483,000
Newfoundland rental [note 9(c)]	**1,506,000**	504,000
Interest and amortization of debt discount and financing expenses (notes 3 and 8)	**12,489,000**	4,494,000
Depreciation and amount written off Trans-Labrador road (note 2)	**4,491,000**	2,632,000
Total expenses	**23,338,000**	9,883,000
Net income before income taxes	**17,628,000**	5,527,000
Deferred income taxes	**4,549,000**	1,239,000
Net income for the year	**13,079,000**	4,288,000
Retained earnings at beginning of year	**6,801,000**	2,513,000
Retained earnings at end of year	**$19,880,000**	$ 6,801,000

Statement of Changes in Financial Position for the year ended December 31, 1973

	1973	1972
Source of funds:		
From current operations:		
Net income	**$13,079,000**	$ 4,288,000
Amortization of debt discount and financing expenses	**83,000**	32,000
Depreciation and amount written off Trans-Labrador road	**4,491,000**	2,632,000
Deferred income taxes	**4,549,000**	1,239,000
	22,202,000	8,191,000
Excess of dividends declared over equity in net income of Twin Falls Power Corporation Limited for the year	—	24,000
Long-term debt:		
Bank loan	—	34,000,000
First Mortgage Bonds Series A	**59,679,000**	68,326,000
First Mortgage Bonds Series B	**11,775,000**	9,075,000
	93,656,000	119,616,000
Use of funds:		
Excess of equity in net income of Twin Falls Power Corporation Limited for the year over dividends declared	**4,000**	—
Development of Churchill Falls power project	**82,208,000**	113,765,000
Trans-Labrador road	—	287,000
Reduction of bank loan	**10,000,000**	—
Debt discount and financing expenses	**509,000**	642,000
	92,721,000	114,694,000
Increase in funds	**935,000**	4,922,000
Working capital (deficiency) at beginning of year	**(2,026,000)**	(6,948,000)
Working capital (deficiency) at end of year	**$ (1,091,000)**	$ (2,026,000)

See accompanying notes.

Notes to the Financial Statements for the year ended December 31, 1973

(1) *Investment in Shares of Twin Falls Power Corporation Limited:*

Churchill Falls (Labrador) Corporation Limited ("Churchill Falls") owns voting control (66-2/3%) of Twin Falls Power Corporation Limited ("Twin Falls"). However, such shares represent only a 33-1/3% interest in the equity of Twin Falls.

The investment in Twin Falls is carried on an equity basis. In view of the fact that the equity interest in Twin Falls is 33-1/3% and as the principal assets and the credit resources of Twin Falls cannot be transferred to Churchill Falls, consolidation of its accounts with those of Churchill Falls does not produce financial statements which are as meaningful and informative as the separate financial statements of Churchill Falls and Twin Falls.

	1973		1972	
Original cost		**$2,500,000**		$2,500,000
Equity in retained earnings at beginning of year	**$172,000**		$196,000	
Equity in net income for the year	**654,000**		676,000	
	826,000		872,000	
Dividends for the year	**650,000**	**176,000**	700,000	172,000
		$2,676,000		$2,672,000

(2) *Depreciation and Amounts Written off Trans-Labrador Road:*

With the commencement of commercial delivery of power on May 1, 1972 under the terms of the power contract with Quebec Hydro-Electric Commission ("Power Contract"), Churchill Falls adopted the policy of providing depreciation at a rate of $1\frac{1}{2}$% per annum on a straight-line basis on the capital cost of the Churchill Falls Power Project ("Project"). This rate is applied in the proportion of the number of units generating power under the terms of the Power Contract to the 10 units which will be so generating upon completion of the Project. During the period from January 1 to April 30, 1972, Churchill Falls provided depreciation on a basis consistent with that of prior years.

The cost of the Trans-Labrador road is being written off over the four year period from January 1, 1972 to December 31, 1975.

(3) *Unamortized Debt Discount and Financing Expenses:*

With effect from May 1, 1972, debt discount and financing expenses are being amortized over the term of the First Mortgage Bonds. The charge to operations is in the proportion of the number of units generating power under the terms of the Power Contract to the 10 units which will be so generating upon completion of the Project.

(4) *Long-Term Debt:*

	Issued and Outstanding			
	1973		1972	
	U.S. $	**Canadian $**	U.S. $	Canadian $
First Mortgage Bonds: $7\frac{3}{4}$% Series A due December 15, 2007 Authorized: $500,000,000 (U.S.)	**$500,000,000**	**$513,277,000**	$440,300,000	$453,598,000
$7\frac{7}{8}$% Series B due December 15, 2007 Authorized: $50,000,000		**50,000,000**		38,225,000
Bank Loan: Authorized: $100,000,000		**24,000,000**		34,000,000
General Mortgage Bonds: $7\frac{1}{2}$% due three years after latest maturity of any First Mortgage Bonds Authorized: $100,000,000		**100,000,000**		100,000,000
		$687,277,000		$625,823,000

First Mortgage Bonds

The First Mortgage Bonds Series A are carried in the accounts at the proceeds realized in Canadian dollars.

The First Mortgage Bonds are repayable in fixed semi-annual and in contingent annual sinking fund instalments commencing June, 1978. The amount payable in 1978 is estimated at $16,000,000.

Bank Loan

Under the terms of an agreement with a consortium of Canadian banks, Churchill Falls is provided with a credit not exceeding $100,000,000 at any time outstanding. The agreement provides for the issue of revolving 90-day notes. At December 31, 1973, the rates of interest payable on the outstanding notes were 10% as to $6,650,000 and 9½% as to $17,350,000 (6½% on $34,000,000 at December 31, 1972), being ½ of 1% over the prime rate charged by each bank and prevailing at the date of issue of each note. On December 31, 1975, or such earlier date as shall be designated by Churchill Falls, the amount of the then outstanding notes is convertible into a term loan repayable in equal semi-annual instalments to December 31, 1978.

The bank loan is subordinate to the First Mortgage Bonds.

General Mortgage Bonds

The Deed of Trust and Mortgage securing the General Mortgage Bonds provides for semi-annual sinking fund payments commencing in June of the fourth year following the completion of the Project. Each payment will be an amount equal to 1% of the aggregate principal amount outstanding on January 1 preceding each payment date. The General Mortgage Bonds are subordinate to the First Mortgage Bonds and the bank loan.

(5) *Capital Stock:*

Common shares without nominal or par value authorized and issued as at December 31, 1972 and 1973 were:

	Shares	Amount
Authorized	10,000,000	
Issued and fully paid	8,759,999	$82,900,000

There are restrictions on the issue of further capital stock without the approval of the holders of at least 75% of the outstanding common shares.

(6) *Dividend Restrictions:*

Under the terms of the debt instruments, Churchill Falls is prohibited from paying cash dividends out of income accumulated up to the Project completion date, as defined. These debt instruments also place restrictions on the payment of cash dividends out of income earned thereafter.

(7) *Sales of Power:*

Quebec Hydro-Electric Commission and Churchill Falls entered into a Power Contract dated May 12, 1969, providing for the sale of substantially all the power from the Project for an initial period of approximately 40 years with a renewal for a further period of 25 years.

The number of units generating power under the terms of the Power Contract was as follows:

May to November, 1972	2
December, 1972 to August, 1973	3
September to November, 1973	4
December, 1973	5

During the year Churchill Falls derived approximately $430,000 (1972 — $400,000) from the delivery of excess power made possible by the use of capacity not required to meet contract commitments.

(8) *Cost Allocations:*

Plant and corporate costs and net interest expense are charged to operations in the proportion of the number of units generating power under the terms of the Power Contract to the 10 units which will be so generating upon completion of the Project. The balance of these costs is included in the capital cost of the Project.

An analysis of interest and amortization of debt discount and financing expenses is as follows:

	1973	1972
Gross interest, including commitment fees	**$50,885,000**	$43,736,000
Less: Interest income	**1,433,000**	773,000
Hydro-Quebec payments (see below)	**13,694,000**	11,480,000
	15,127,000	12,253,000
Net interest expense	**35,758,000**	31,483,000
Allocated to capital	**23,352,000**	27,021,000
Charged to operations	**12,406,000**	4,462,000
Amortization of debt discount and financing expenses (note 3)	**83,000**	32,000
	$12,489,000	$ 4,494,000

Under the terms of the Power Contract, Quebec Hydro-Electric Commission is obliged to pay to Churchill Falls a portion of the interest charges on the long-term debt of Churchill Falls.

(9) *Commitments and Contingent Liabilities:*

(a) At December 31, 1973, Churchill Falls had entered into contracts related to the Project involving expenditures after that date estimated at $13,000,000 ($39,000,000 at December 31, 1972). This includes an amount based on an evaluation of outstanding claims.

(b) At December 31, 1973, Churchill Falls was defending legal actions aggregating approximately $4,000,000 arising from claims submitted by a contractor in connection with the development of the Project.

(c) Under the terms of the Churchill Falls (Labrador) Corporation Limited (Lease) Act, 1961, and amendments thereto, Churchill Falls has entered into a 99-year lease covering the water power potential of the Upper Churchill Watershed and is required to pay an annual rental of 8% of the consolidated net profits before income taxes (as defined) and an annual royalty of 50 cents per horsepower year generated (as defined).

(d) Churchill Falls has a sublease with Twin Falls giving that company the right to develop the hydro-electric power potential of the Unknown River, a tributary of the Churchill River, at the site of the Twin Falls plant. The sublease expires December 31, 1989, but may be renewed for a term of 25 years under certain conditions, if Twin Falls so requests. Under the terms of the sublease, Churchill Falls has given notice to Twin Falls that a suspension of certain of its rights under the sublease will become effective on a date not later than June 30, 1974, with the effect that Churchill Falls will have the right to divert the flow of water from the Twin Falls plant and to use the facilities of Twin Falls as required. In consideration for this suspension of rights, Churchill Falls will be required to deliver to Twin Falls, at an agreed price, during the unexpired term of the sublease or any renewal thereof, horsepower equivalent to the installed horsepower of the Twin Falls plant. In addition, Churchill Falls will be required, at its own expense, to keep and maintain in good working order all structures, works and plant of Twin Falls.

(10) *Remuneration of Directors and Officers:*

		Number	Aggregate Remuneration
Directors	1973	15	$ 27,000
	1972	15	20,000
Officers	1973	13 (3 of whom were directors)	247,000
	1972	13 (4 of whom were directors)	217,000

In 1972 and 1973, five of the senior officers did not receive any remuneration as officers from Churchill Falls. One received remuneration from Brinco Limited and the services of the four remaining officers were provided pursuant to an agreement with Rio Tinto North American Services Limited and they have received remuneration from that company.

Auditors' Report to the Shareholders

We have examined the balance sheet of Churchill Falls (Labrador) Corporation Limited as at December 31, 1973, and the statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1973, and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.,
Chartered Accountants

Montreal, Que.,
February 20, 1974

Balance Sheet as at December 31, 1973

Assets	**1973**	1972
Current assets:		
Cash and short-term deposits	**$15,620,000**	$14,123,000
Accounts receivable	**682,000**	567,000
Supplies and prepaid expenses	**67,000**	76,000
Total current assets	**16,369,000**	14,766,000
Funds held by trustee	**—**	1,000
Plant and equipment, at cost	**59,855,000**	59,855,000
Less accumulated depreciation	**17,682,000**	15,877,000
	42,173,000	43,978,000
Wabush Terminal Expansion (note 1)	**4,639,000**	4,112,000
	$63,181,000	$62,857,000

Liabilities and Shareholders' Equity		
Current liabilities:		
Bank loan (note 1)	**$ 4,600,000**	$ 3,500,000
Accounts payable and accrued liabilities (including to affiliates $132,000; 1972 — $75,000)	**240,000**	900,000
Dividends payable	**713,000**	862,000
First Mortgage Bonds due within one year (note 2)	**1,995,000**	1,890,000
Total current liabilities	**7,548,000**	7,152,000
First Mortgage Bonds (note 2):		
5½% Series A due June 30, 1986	**28,242,000**	29,962,000
6¼% Series B due June 30, 1989	**6,634,000**	6,909,000
	34,876,000	36,871,000
Deferred income taxes	**12,730,000**	10,818,000
Shareholders' equity:		
Capital stock (note 3)	**7,500,000**	7,500,000
Retained earnings (note 2)	**527,000**	516,000
	8,027,000	8,016,000
	$63,181,000	$62,857,000

See accompanying notes.

On behalf of the Board:

Harold L. Snyder, Director

W. J. Bennett, Director

Statement of Income and Retained Earnings for the year ended December 31, 1973

	1973	1972
Revenue:		
Sales of power	$8,642,000	$8,656,000
Expenses:		
Cost of power (note 4)	1,820,000	1,729,000
Interest (note 2)	2,160,000	2,261,000
Depreciation	1,805,000	1,814,000
	5,785,000	5,804,000
Income before the following items	2,857,000	2,852,000
Interest income	1,016,000	837,000
	3,873,000	3,689,000
Deferred income taxes	1,912,000	1,660,000
Net income for the year	1,961,000	2,029,000
Retained earnings at beginning of year	516,000	587,000
	2,477,000	2,616,000
Dividends	1,950,000	2,100,000
Retained earnings at end of year	$ 527,000	$ 516,000

Statement of Changes in Financial Position for the year ended December 31, 1973

	1973	1972
Source of funds:		
From current operations:		
Net income	$1,961,000	$2,029,000
Depreciation	1,805,000	1,814,000
Deferred income taxes	1,912,000	1,660,000
	5,678,000	5,503,000
Decrease in funds held by trustee	1,000	—
	5,679,000	5,503,000
Use of funds:		
Wabush Terminal Expansion	527,000	3,569,000
Reduction of long-term debt	1,995,000	1,890,000
Dividends	1,950,000	2,100,000
Increase in funds held by trustee	—	1,000
	4,472,000	7,560,000
Increase (decrease) in funds	1,207,000	(2,057,000)
Working capital at beginning of year	7,614,000	9,671,000
Working capital at end of year	$8,821,000	$7,614,000

See accompanying notes.

Notes to the Financial Statements for the year ended December 31, 1973

(1) *Wabush Terminal Expansion:*

At the request of a customer, Twin Falls Power Corporation Limited (''Twin Falls'') has installed additional terminal station capacity at a cost to December 31, 1973 of $4,639,000. This facility is financed by the bank loan which is repayable on or before February 28, 1974.

Until financial arrangements with the customer are finalized and the terminal is put into service, all interest charges relating to the bank loan are being charged to the cost of this facility and no depreciation is being written.

(2) *First Mortgage Bonds:*

The following amounts of 5½% First Mortgage Bonds Series A due June 30, 1986, and 6¼% First Mortgage Bonds Series B due June 30, 1989, have been authorized, issued and retired by Twin Falls pursuant to the terms of the Deed of Trust and Mortgage (''Trust Deed''), as amended.

	1973		1972	
	Series A (US $)	Series B (US $)	Series A (US $)	Series B (US $)
Authorized	**$42,500,000**	**$10,000,000**	$42,500,000	$10,000,000
Issued	**39,500,000**	**8,000,000**	39,500,000	8,000,000
Retired	**11,362,000**	**1,592,000**	9,830,000	1,352,000
Outstanding December 31	**28,138,000**	**6,408,000**	29,670,000	6,648,000
Due within one year	**1,616,000**	**255,000**	1,532,000	240,000
Long-term debt	**$26,522,000**	**$ 6,153,000**	$28,138,000	$ 6,408,000

The outstanding Bonds are carried in the accounts at the related proceeds realized in Canadian dollars. The funds required to service this debt are made available in U.S. dollars under long-term power contracts without loss or gain on exchange to Twin Falls.

Estimated repayments, in U.S. dollars, of First Mortgage Bonds over the next five years are:

1974	$1,871,000
1975	1,978,000
1976	2,091,000
1977	2,208,000
1978	2,335,000

The Bonds are repayable in equal semi-annual instalments of principal and interest. The Bonds are secured by a first fixed and specific mortgage, pledge and charge on plant and equipment and long-term power and other contracts and a first floating charge on all other assets of Twin Falls. Certain restrictions are placed by the Trust Deed on the payment of dividends other than stock dividends.

(3) *Capital Stock:*

Authorized:

500,000 Class A shares of the par value of $10 each.
1,000,000 Class B shares of the par value of $10 each.

Issued and fully paid:

250,000 Class A shares	$2,500,000
500,000 Class B shares	5,000,000
	$7,500,000

The issued Class A shares are owned by Churchill Falls (Labrador) Corporation Limited (''Churchill Falls'') and the issued Class B shares are owned by the present long-term customers of Twin Falls. The Class A shares are entitled to four votes per share and the Class B shares are entitled to one vote per share but rank pari passu in all other respects.

(4) *Commitments:*

(a) Rentals payable annually to Churchill Falls amount to $305,000 and $1.40 per installed horsepower. In addition, Twin Falls pays an annual royalty of 50 cents per horsepower year generated (as defined).

(b) Twin Falls has a sublease from Churchill Falls giving Twin Falls the right to develop the hydro-electric power potential of the Unknown River, a tributary of the Churchill River, at the site of the Twin Falls plant. The sublease expires December 31, 1989, but may be renewed for a term of 25 years under certain conditions, if Twin Falls so requests. Twin Falls has received from Churchill Falls notice that a suspension of certain rights will become effective on a date (''Suspension Date'') not later than June 30, 1974, with the effect that Churchill Falls may divert the flow of water from the Twin Falls plant and use the facilities of Twin Falls as required. In consideration for this suspension of rights, Churchill Falls will be required to deliver to Twin Falls, during the unexpired term of the sublease or any renewal thereof, horsepower equivalent to the installed horsepower of the Twin Falls plant. Twin Falls will be obliged to purchase this power at a price related to the average annual cost of operating the Twin Falls plant in the five-year period preceding the Suspension Date. In addition, the price will include the payment of the rentals and royalty as outlined in note 4(a), the royalty being calculated as though the power delivered by Churchill Falls to Twin Falls had been generated in the Twin Falls plant. Churchill Falls will be required, at its own expense, to keep and maintain in good working order all structures, works and plant of Twin Falls.

Under the terms of an agreement in effect from January 1, 1972, Twin Falls is required to pay to Churchill Falls $765,000 per annum for which Churchill Falls provides substantially all plant operating and normal maintenance services. This agreement will terminate on the Suspension Date.

(5) *Directors and Officers:*

Twin Falls has nine directors and seven officers including three who are directors and officers. In 1972 and 1973, no remuneration was paid by Twin Falls to the directors and officers.

Auditors' Report to the Shareholders

We have examined the balance sheet of Twin Falls Power Corporation Limited as at December 31, 1973 and the statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1973, and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.,
Chartered Accountants

Montreal, Que.,
February 15, 1974